

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Voluntary Public

Date: 3/9/2018

GAIN Report Number: KS1809

Korea - Republic of

Post: Seoul

Fragile Trade- A Year in Egg Exports to Korea

Report Categories:

Poultry and Products

Approved By:

Ron Verdonk

Prepared By:

Amanda F. Hinkle

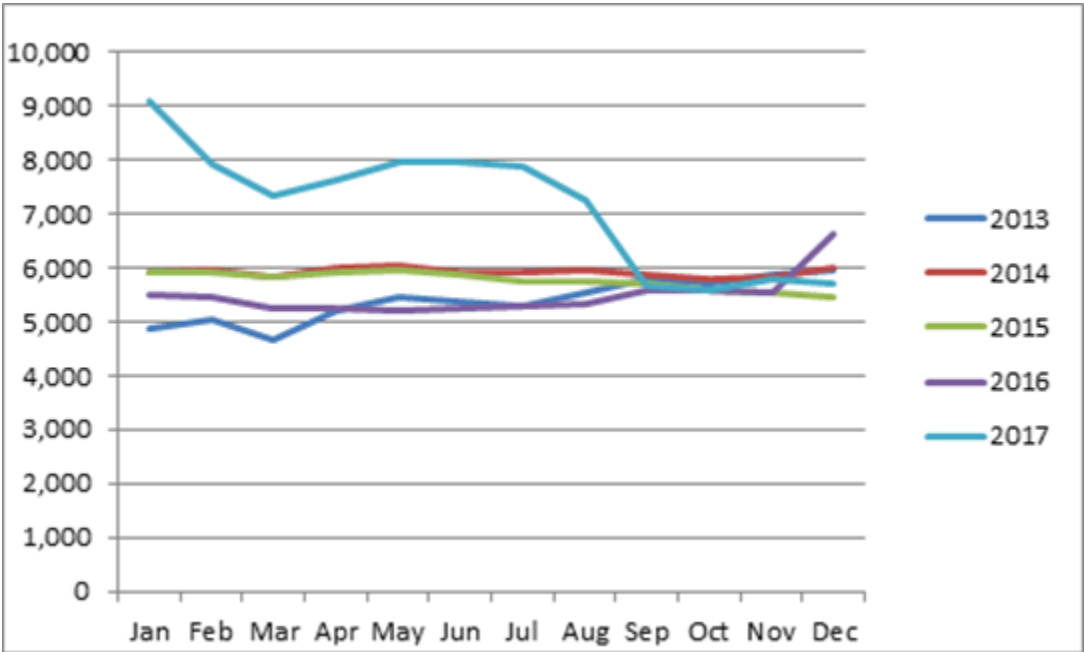
Report Highlights:

A temporary crisis in egg supply in 2017 created an opportunity for U.S. eggs to enter the Korean market. However, now that prices have returned to normal levels, it is unlikely that trade in shell eggs will be substantial. At the same time, industry expects to see continued trade in processed egg products, particularly in egg yolks.

General Information:

In an effort to fill demand after an outbreak in late 2016 of Highly Pathogenic Avian Influenza (HPAI) that resulted in the culling of 30 million birds, Korea imported its first U.S. shell eggs on January 12, 2017. The United States was among several countries that exported shell eggs to Korea for the first time, other suppliers included Spain, New Zealand, Australia, and Thailand. In addition, the United States and many other countries also gained access for certain egg products for the first time, including liquid egg white, whole liquid egg, salted egg, and pidan. The new market access for these products was driven by prices that reached the unusually high price of around 9,000 KRW (approx. 8.40 USD) per tray of 30 “special grade” eggs. These prices led the Korean government to seek other sources of eggs and also made imported eggs price competitive.

Cost of one tray of 30 “special grade” eggs, in KRW



Source: aT

Note: 1 USD equals approximately 1,071 KRW

Egg price (KRW) by month (Unit: A Tray of Eggs), “Special Grade” Basis

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	4,864	5,022	4,672	5,210	5,440	5,384	5,292	5,521	5,783	5,723	5,851	5,942
2014	5,925	5,955	5,847	5,984	6,024	5,918	5,894	5,956	5,865	5,796	5,838	5,986
2015	5,909	5,900	5,842	5,899	5,960	5,850	5,758	5,740	5,715	5,565	5,518	5,455
2016	5,493	5,473	5,260	5,259	5,216	5,260	5,272	5,332	5,590	5,581	5,545	6,621
2017	9,096	7,932	7,326	7,635	7,959	7,951	7,876	7,233	5,650	5,573	5,784	5,691

Source: aT

Note: 1 USD equals approximately 1,071 KRW

As the price of eggs had spiked, Korea was eager to allow imports in quickly. The Korean government had offered a temporary freight subsidy of 50% of the cost (within KRW 90,000 (approx. \$84) per metric ton), which was provided for air freight from early January until the end of February, and ocean freight until the end of April. The Korean Ministry of Agriculture, Food and Rural Affairs (MAFRA) also provided subsidies for the import of commercial chicks for layer hens to revitalize the domestic layer hens industry from HPAI damage. According to MAFRA, the transportation subsidy defrayed freight charges for 1.1 million commercial chick imports (300 KRW or \$0.28 per bird) by the end of April.

In addition to these subsidies, the Korean Ministry of Strategy and Finance announced a temporary Tariff Rate Quota (TRQ) on January 3, 2017, that was valid until June 30, 2017. In the end, the TRQ had been set for 98,600MT of eggs and egg products, but only filled around 7.5% of that total, or 7,426 MT.

<u>1st Half of 2017 (1/1 - 6/30)</u>									
HTS Code		Description	Duty	TRQ Quantity (MT)			Allocated TRQ (MT)		
			TRQ	For processing	For direct retail	Sub Total	For processing	For direct retail	Sub Total
0407	21-0000	Fresh shell eggs	0	16,032	18,968	35,000	163	1,294	1,457
	90-0000	Smoked shell eggs	0	0	3,300	3,300	0	0	0
0408	11-0000	Dried yolk	0	600	0	600	120	0	120
	19-0000	Frozen yolk	0	12,400	0	12,400	1,922	0	1,922
	91-0000	Dried whole egg (not in shell)	0	2,600	0	2,600	569	0	569
	99-1000	Frozen whole egg (not in shell) etc.	0	22,415	5,585	28,000	1,752	1,534	3,286
3502	11-0000	Egg white powder	0	1,400	0	1,400	57	0	57
	19-0000	Frozen egg white	0	15,300	0	15,300	15	0	15
Total Quantity				70,747	27,853	98,600	4,598	2,828	7,426

On August 1, 2017, the Korean government approved a second, new TRQ of zero percent (0%) for eggs and egg products to fill the continued lack of supply. Imports of fresh eggs, smoked eggs, egg yolk, whole liquid eggs, egg white, and hatching eggs to total up to 28,000 MT were included as categorized below. The hatching egg quota was added, and was expected to help relieve the burden on Korean poultry farms caused by an outbreak of HPAI in Korea in late 2016, by supplying about three million baby chicks. This quota was scheduled to last until the end of 2017.

However, demand for eggs decreased in the second half of the year, as pesticides were detected in eggs from the European Union and also in eggs produced in Korea. Consumer confidence wavered, and the price of eggs decreased, causing difficulty for any potential egg exporters to this market. As a result, the second TRQ only filled 19.7%, with imports totaling just 5,504.4 MT out of a potential 28,000 MT. Note, no shell eggs have been imported since October 2017.

<u><i>2nd Half of 2017 (7/1-12/31)</i></u>									
HTS Code		Description	Duty	TRQ Quantity (MT)			Allocated TRQ (MT)		
			TRQ 1/	For processing	For direct retail	Sub Total	For processing	For direct retail	Sub Total
0407	11-0000	Fertile eggs for hatching	0	0	600	600	0	24.1	24.1
	21-0000	Fresh shell eggs	0	3,000	10,000	13,000	181	457.3	638.3
	90-0000	Smoked shell eggs	0	0	100	100	0	0	0
0408	11-0000	Dried yolk	0	300	0	300	63	0	63
	19-0000	Frozen yolk	0	4,300	0	4,300	1,300	0	1,300
	91-0000	Dried whole egg (not in shell)	0	1,200	0	1,200	328	0	328
	99-1000	Frozen whole egg (not in shell) etc.	0	5,200	3,000	8,200	696	2,435	3,131
3502	11-0000	Egg white powder	0	200	0	200	19	0	19
	19-0000	Frozen egg white	0	100	0	100	1	0	1

Total Quantity	14,300	13,700	28,000	2,588	2,916.4	5,504.4
-----------------------	--------	--------	---------------	-------	---------	----------------

The United States was a major player in egg products with TRQs in 2017, as it was responsible for approximately 47% of Korean egg and egg product imports in 2017. The U.S. share is notable considering that the United States was banned from exporting shell eggs to Korea during the March 4-August 15 period when the United States was affected by its own HPAI outbreak.

Among the eggs imported under the fresh shell egg TRQ, 1.5 million fresh shell eggs from the United States were sold by Lotte Mart on the retail market. However, other fresh shell eggs went into the egg product processing sector, including into products such as liquid egg products (processed in Korea), egg patties, and other egg processed products.

			2017 Annual Imports (MT) from the U.S.	2017 Annual Imports (Value) from the U.S.	2017Annual Imports (MT) from World	2017 Annual Imports (Value) from World
HTS Code		Description	Total	Total	Total	Total
0407	11-0000	Fertile eggs for hatching	51	378,122	163	1,342,390
	21-0000	Fresh shell eggs	1,171	2,517,902	2,673	5,053,821
	90-000	Smoked	0	931	478	1,164,077

	0	shell eggs				
0408	11-0000	Dried yolk	300	1,508,741	388	1,957,506
	19-0000	Frozen yolk	2,539	6,463,966	3,278	8,402,007
	91-0000	Dried whole egg (not in shell)	598	2,597,869	982	4,903,180
	99-1000	Frozen whole egg (not in shell) etc.	2,464	3,915,451	6,489	13,155,681
3502	11-0000	Egg white powder	45	306,563	972	7,435,723
	19-0000	Frozen egg white	778	1,006,153	1,386	2,150,539
Total Quantity			7,946		16,809	

The United States has preferential tariffs with Korea for eggs and egg products as negotiated in the Korea- U.S. Free Trade Agreement (KORUS FTA). These tariffs (below) will be phased out over a set number of years (depending on the tariff line), and all of these products will be duty-free by the end of 2026. 2017 was year six of KORUS implementation.

The following is the tariff schedule for egg and egg products and their stage-down periods under the KORUS FTA. As the temporary TRQ period has finished, the tariff schedule for eggs and egg products has now reverted to these rates:

HTS Code	Description	Basic Tariff	KORUS
----------	-------------	--------------	-------

			Duty	D (rs)	Staging Period (Total	Year tariff reaches zero
0407	21-0000	Fresh shell eggs	27	1	15	2026
	90-0000	Smoked shell eggs	27	8	10	2021
0408	11-0000	Dried yolk	27	1	12	2023
	19-0000	Frozen yolk	27	1	12	2023
	91-0000	Dried whole egg (not in shell)	27	8	10	2021
	99-1000	Frozen whole egg (not in shell) etc.	30	1	15	2026
3502	11-0000	Egg white powder	8	0	5	2017
	19-0000	Frozen egg white	8	0	5	2017

As the temporary TRQ has ended, it is unlikely the United States will continue to ship many shell eggs under KORUS tariff. Other than difficulty competing with future lower prices, hurdles to U.S. exports include egg color and shelf life. The majority of eggs produced in the United States are white, whereas those produced in Korea are typically brown. The color of eggs received a great deal of media attention when the white eggs started coming into Korea, and the attention may have helped further drive consumer preference away from the white eggs. Even Korean processors showed an inclination toward brown eggs rather than white ones, which led importers and distributors to work with other countries, such as Thailand, where they could secure brown eggs.

The second issue was shelf life. The Korean government has not established a shelf life for fresh shell eggs. However, the exporter must be able to back up the claim if using longer than a 45-day shelf life claim. In the United States, USDA allows a maximum 90-day claim, but the responsibility for the claim rests with the producer. This led to some confusion when eggs came in with a certain shelf life claim and suggested storage temperature, but the importer wanted to market the eggs with a different shelf life claim because the storage temperature would differ. Under these conditions, exporters should negotiate with importers on behalf of their end-users regarding usage or purpose of fresh shell eggs. If importers' end-users are processing establishments or importers are processors, they would be willing to accept shelf life longer than 45 days to the maximum 90 days USDA allows. On the other hand, if the usage of fresh shell eggs is for market distribution, end-users would be reluctant to accept a shelf life maximum of 90 days as regular customers can readily identify production and expiration dates and would be concerned when they compare them to the 30-days or shorter shelf life of local fresh shell eggs.

Some internet articles showed the table of storage temperature and recommended shelf life for comparison as below.

Country	Storage Temperature (°C)	Recommended shelf life
Korea	0~10 (refrigerated)	35
	10~20	21
	20~25	14
	25~30	7
USA	Under 7.2 (refrigerated)	45
Japan	0~10 (refrigerated)	57
	20	30
	25	20

(Korean Livestock Quality Evaluation Center)

As mentioned above, the seller could be challenged by the government to demonstrate the duration of quality. According to the Ministry of Food and Drug Safety (MFDS), they are considering setting guidelines for setting proper shelf life depending on storage and distribution conditions.

Taken as whole, the opening that developed starting in January 2017 bodes well for several egg products which were introduced to the market. Whole liquid egg and liquid egg white are among the newly imported products for which industry has expectations for expanded sales. However, the USA Poultry and Egg Export Council (USAPEEC) office in Korea sees market prospects as especially promising for egg yolks:

“The egg market in Korea has been mostly driven by egg yolk demand from the industries involved in sauce manufacturing, food manufacturing and bakery/confectionery. (In the case of frozen egg yolk, over 90% of the products imported are 10% sugar added. The remaining 10% is for 10% salt added frozen egg yolks.) U.S. egg products have taken up the largest market share with a wide lead among other competing exporting countries in terms of both volume and value. In the case of frozen egg yolk, U.S. product has dominated with over 90% market share in volume. In the case of dried egg yolk, U.S. product took about 60% of the same product category market in volume.

While the U.S. has been a market leader among imported egg products, it faces competition against domestic egg production. While Korea does not have strong capacity in egg products manufacturing, Korea does have self-sufficiency of its fresh egg supply, coupled with low price. Food manufacturing companies/HRI with high-sensitivity in net cost continue to use domestic fresh egg. The eggs are “processed” in the most simple form of basically broken, not pasteurized. Major food manufacturers are setting up their own facility to handle and break fresh eggs to minimize possible food safety issues coming from supply from small-sized vendors who may or may not have proper handling capability. This in-house-egg-supplying system helps the local manufacturers to lower cost and also to control food safety.”

Korea’s Egg Production, Supply and Demand by Year

	2011	2012	2013	2014	2015	2016	2017 A/
--	------	------	------	------	------	------	---------

Domestic Production (MT)	573,079	604,525	604,464	657,363	657,636	700,716	577,100
Imports (MT)	2,892	2,771	2,494	2,623	2,050	2,276	9,000
Total Supply (MT)	575,971	607,296	606,958	659,986	659,686	702,992	586100
Per Capita Consumption (Kg)	11.57	12.13	12.07	12.74	13	13.7	11.4

Source: MAFRA

Note: A/ Projected Estimates by Korea Rural Economic Institute (KREI)

While eggs and egg products are expected to maintain access going forward, several products (whole liquid egg, liquid egg white, salted egg, and pidan) are currently not eligible for export to Korea. Korea had temporarily allowed these egg products due to the urgent need following HPAI. However, they stopped allowing these egg products shipped on or after January 14, and pertinent government agencies are now reviewing continued market access. Korea sent a questionnaire to each of the countries involved to learn more about the regulation of these products, with the goal of making the temporary access permanent after reviewing the questionnaires. Now, Korea is currently reviewing the questionnaires from each of the countries, and plans to reinstate access once they've reviewed the data.